Tsantsabane Local Municipality
(Registration number NC 085)
Annual Financial Statements
for the year ended 30 June 2017

General Information

Nature of business and principal activities	Tsantsabane Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
Mayoral committee	
Mayor	Mrs M Daniels
	Mr EEJ Phete (Speaker)
Accounting Officer	Mr JJ Theys
Chief Finance Officer (CFO)	Ms A Kooverjee
Registered office	13 Springbok Street Postmasburg 8420
Postal address	P.O.Box 5 Postmasburg 8420
Bankers	ABSA Bank Limited Standard Bank of South Africa
Auditors	Auditor-General of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 01 March 1900 and were signed on its behalf by:

Accounting Officer
Acting municipal manager

The accounting officer submits his report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

The Net deficit for the year amounted to R55 556 434 (2015: surplus of R1 117 428).

2. Going concern

I draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 621 917 072 and that the municipality's total assets exceed its total liabilities assets by R 621 917 072.

The annual financial statements have been prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Management has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the curent financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue it's operational existence for the foreseeble future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations published in terms of the Division of Revenue Act (Act 1 of 2015).

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board,and in accordance with Section 122(3) of the Municipal Finance Mangement Act (Act No.56 of 2003).

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr JJ Theys	South African

6. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

Tsantsabane Local Municipality
(Registration number NC 085)
Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	9	16 944 607	16 948 531
Receivables from non-exchange transactions	10	3 955 350	3 955 350
Operating lease asset	7	27 237	27 237
Consumer receivables from non-exchange transactions	11&15	4 470 589	4 519 792
Receivables from non-exchange transactions	12&15	17 118 814	17 607 037
VAT receivable	13	10 383 891	10 012 954
Consumer receivables from exchange transactions	14	18 572 375	17 640 973
Cash and cash equivalents	16	9 213 016	11 190 152
		80 685 879	**81 902 026**
Non-Current Assets			
Investment property	2	91 705 437	91 705 437
Property, plant and equipment	3	606 119 558	589 528 891
Intangible assets	4	63 121	63 121
Heritage assets	5	355 000	355 000
		698 243 116	**681 652 449**
Total Assets		**778 928 995**	**763 554 475**
Liabilities			
Current Liabilities			
Finance lease obligation	19	3 209 093	3 209 093
Payables from exchange transactions	23	124 779 080	109 752 246
Consumer deposits	24	2 042 181	2 019 016
Unspent conditional grants and receipts	20	885 823	1 687 948
Other financial liability	22	-	119 979
		130 916 177	**116 788 282**
Non-Current Liabilities			
Finance lease obligation	19	2 333 527	2 333 527
Employee benefit obligation	8	13 527 000	12 217 000
Provisions	21	10 235 219	10 235 219
		26 095 746	**24 785 746**
Total Liabilities		**157 011 923**	**141 574 028**
Net Assets		**621 917 072**	**621 980 447**
Accumulated surplus	18	621 917 072	621 980 447

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	27	89 812 523	79 505 625
Licences and permits		1 801 015	1 783 933
Sundry income	29	421 180	821 755
Rental income		415 745	379 413
Insurance claims received		29 745	113 581
Donations received		-	84 000
Interest received - investment	34	707 679	5 192 773
Total revenue from exchange transactions		**93 187 887**	**87 881 080**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	31 665 464	26 227 219
Transfer revenue			
Government grants & subsidies	28	64 076 485	51 933 672
Fines, Penalties and Forfeits		334 350	196 835
Total revenue from non-exchange transactions		**96 076 299**	**78 357 726**
Total revenue	25	**189 264 186**	**166 238 806**
Expenditure			
Employee related costs	31	(67 997 314)	(62 386 537)
Remuneration of councillors	32	(4 440 467)	(3 172 277)
Depreciation and amortisation	36	(5 784 925)	(23 629 751)
Finance costs	37	(4 499 892)	(7 116 178)
Lease rentals on operating lease		(4 451 375)	(432 801)
Debt Impairment	33	(19 282 911)	(39 820 129)
Repairs and maintenance		(4 875 086)	(18 640 439)
Bulk purchases	39	(36 570 989)	(50 666 413)
General Expenses	30	(32 002 432)	(22 569 758)
Total expenditure		**(179 905 391)**	**(228 434 283)**
Operating surplus (deficit)		**9 358 795**	**(62 195 477)**
Gain on disposal of assets and liabilities		596 777	26 397
Fair value adjustments	35	-	5 435 035
Actuarial gains/losses	8	(1 697 853)	1 092 774
		(1 101 076)	**6 554 206**
Surplus/(Deficit) for the year		**8 257 719**	**(55 641 271)**

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015	**677 621 718**	**677 621 718**
Changes in net assets		
Deficit for the year	(55 641 271)	(55 641 271)
Total changes	(55 641 271)	(55 641 271)
Opening balance as previously reported	613 659 353	613 659 353
Restated* Balance at 01 July 2015 *	**613 659 353**	**613 659 353**
Changes in net assets		
Deficit for the year	8 257 719	8 257 719
Total changes	8 257 719	8 257 719
Balance at 30 June 2017	**621 917 072**	**621 917 072**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.Transfers are made to and from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. if owner occupied property becomes as investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

1.4 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement:

Cost model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation
Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	15 - 50 years
Plant and machinery	3- 7 years
Furniture and fixtures	7 - 8 years
Motor vehicles	5 - 6 years
Office equipment	3 - 7 years
Computer equipment	3 - 7 years
Infrastructure	
• Roads and Paving	10 - 60 years
• Electricity	10 - 70 years
• Water	15 - 60 years
Community	
• Gaveyard Site	20 - 30 years
• Recreational and Sporting Facility	15 - 50 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.4 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Initial recognition

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

1.5 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measuring

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Other intangible assets that are acquired by the municipality and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be fair value as at the date of acquisition.

Subsequent expenditure

Expenditure on intangible assets shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. All other expenditure, including expenditure on internally generated goodwill and customer lists, is recognised in surplus or deficit as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Licenses and franchises	x years
Computer software, other	x years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the statement of the statement of financial performance when the asset is derecognised.

1.5 Intangible assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.7 Investments in controlled entities

The term 'commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

1.7 Investments in controlled entities (continued)

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

The municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancellable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation is disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.8 Financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Property,plant and equipment of intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are intially recognised at lower of the asset's fair value and the present value of the minimum lease payments.

When a lease includes both land and buildings elements, the Municipality assesses the classification of each element separately.

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.The Municipality shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.10 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented municipality.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Where it is not practical to determine the fair value less costs to sell, the municipality uses the value in use .

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented municipality.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Where it is not practical to determine the fair value less costs to sell, the municipality uses the value in use.

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Share capital / contributed capital

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a monthly basis.

1.14 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

1.14 Employee benefits (continued)

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

The council is demonstrably committed to a termination when the it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

The detailed plan includes as a minimum:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

1.14 Employee benefits (continued)

Other long-term employee benefits

Long Service awards

For long service awards the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries.
Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

Gains or losses on the curtailment or settlement of long service awards are recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle the long service awards, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a long service award is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the long service award obligation minus the fair value of plan assets, if any.

Actuarial assumptions are included in the note of long service awards.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.14 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the Board; or
- a present obligation that arises from past events but is not recognised because:
- - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- - the amount of the obligation cannot be measured with sufficient reliability.

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Rendering of services consist out of solid waste, sanitation, sewerage, Electricity and water services.

Service charges

Service charges relating to distribution of electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced.

In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July.The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another municipality in exchange.

Fines are economic benefits or service potential received or receivable by municipalities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by municipalities external to the reporting municipality.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Change in accounting policy due to amendments to GRAP 5 - Borrowing costs

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since . The effective date of the amendments were .

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

1.22 Materiality

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.23 Comparative figures

When the presentation or classification of an item in the annual financial statements are amended, comparative amounts are reclassified.

1.24 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of govenment, municipality or organ of state and expenditure in a form of a grants that is not permitted in terms fo the Municipal Finance Management Act (Act No56 of 2003). Unauthorised expenditure is accounted for as an expense(measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.ext

1.25 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. Detailed disclosure have been made in the notes to the financial statements as required by MFMA.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

1.26 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned.

If recovery is not possible, the accounting officer may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.27 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

1.28 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.29 Budget information

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.30 Related parties

The municipality operates in an economic sector currently dominated by municipalities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only municipalities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

We regard all individuals from the level of Accounting Officer and Council members as well as managers and directors reporting directly to the municipal manager as key management per the definition of the financial reporting standard.

Close members of the family of key management are considered to be those family members who may be expected to influence, or be influenced by, key management in their dealings with the municipality.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered to be at arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Accounting Policies

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.32 Unspent conditional grants and receipts

Conditional government grants are subjected to specific conditions. If these specific conditions are not met, the money received are repayable.

Unspent conditional grants are financial liabilities that are separately disclosed in the Statement of Financial Position.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a no exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement
Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.33 Government grants and receipts

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Accounting Policies

1.33 Government grants and receipts (continued)

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.

An announcement at the beginning of a financial year that grants may be available for qualifying municipalities in accordance with an agreed program may not be sufficient evidence of the probability of the flow.

Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

2. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	91 705 437	-	91 705 437	91 705 437	-	91 705 437

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	91 705 437	91 705 437

Reconciliation of investment property - 2016

	Opening balance	Disposals	Transfers	Fair value adjustments	Total
Investment property	88 969 124	(2 189 082)	(541 748)	5 467 143	91 705 437

Pledged as security

None of the properties were pledged as security for any financial liability.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 June 2016. Revaluations were performed by an independent valuer, DDP Valuers a Professional Valuer, registered with the South African Council for the Property Valuers Profession. They are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use. The process to determination of market values took into account the following assumptions, among other things, (a) selling prices of similar recent property sales in Tsantsabane, (b) age and current condition of the buildings, (c) use of the building, (d) existing current lease agreement in place, (e) discount rate in line with the municipality estimated cost of borrowings and (f) any other key assumptions deemed necessary.

There are no restrictions on the realisability of the investment property or the remittance of revenue generated by investment properties. Valuations were done by an independent sworn appraiser.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	29 307 836	-	29 307 836	29 307 836	-	29 307 836
Buildings	71 073 280	(21 129 896)	49 943 384	71 073 280	(21 129 896)	49 943 384
Infrastructure	588 580 095	(122 521 457)	466 058 638	588 580 095	(116 736 532)	471 843 563
Other property, plant and equipment	22 525	-	22 525	-	-	-
Landfill Sites	2 630 480	(462 757)	2 167 723	2 630 480	(462 757)	2 167 723
Other property, plant and equipment	23 199 885	(14 561 052)	8 638 833	23 144 920	(14 561 052)	8 583 868
Work in Progress	49 980 619	-	49 980 619	27 682 517	-	27 682 517
Total	**764 794 720**	**(158 675 162)**	**606 119 558**	**742 419 128**	**(152 890 237)**	**589 528 891**

Reconciliation of property, plant and equipment - 2017

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	29 307 836	-	-	29 307 836
Buildings	49 943 384	-	-	49 943 384
Infrastructure	471 843 563	-	(5 784 925)	466 058 638
Other property, plant and equipment	-	22 525	-	22 525
Landfills	2 167 723	-	-	2 167 723
Other property, plant and equipment	8 583 868	54 965	-	8 638 833
Work in progress	27 682 517	22 298 102	-	49 980 619
	589 528 891	**22 375 592**	**(5 784 925)**	**606 119 558**

Reconciliation of property, plant and equipment - 2016

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Total**
Land	29 307 836	-	-	-	-	29 307 836
Buildings	52 720 097	-	-	-	(2 776 713)	49 943 384
Infrastructure	481 331 056	-	-	8 387 619	(17 875 112)	471 843 563
Landfills	2 378 544	-	-	-	(210 821)	2 167 723
Other property, plant and equipment	10 352 284	927 958	(15 230)	-	(2 681 144)	8 583 868
Work in Progress	20 162 925	15 397 571	-	(7 877 979)	-	27 682 517
	596 252 742	**16 325 529**	**(15 230)**	**509 640**	**(23 543 790)**	**589 528 891**

Pledged as security

No property plant and equipments are pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Intangible assets	2 266 550	(2 203 429)	63 121	2 266 550	(2 203 429)	63 121

Reconciliation of intangible assets - 2017

	Opening balance	**Total**
Computer software	63 121	63 121

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	110 802	38 281	(85 962)	63 121

Pledged as security

No intangible assets are pledged as security.

5. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Mayoral chain and statue	355 000	-	355 000	355 000	-	355 000

Reconciliation of heritage assets 2017

	Opening balance	**Total**
Mayoral chain and statue	355 000	355 000

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Mayoral chain and statue	355 000	355 000

6. Other financial assets

7. Operating lease asset (accrual)

Current assets	27 237	27 237
Currrent asset	27 237	27 237

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

7. Operating lease asset (accrual) (continued)

The municipality leases buildings to the Electoral Commission over a period of 36 months commencing on 01 April 2013 ending 31 March 2016. The escalation on rental is 7,5%. There's no option to purchase.

The municipality leases land to Vodacom (Pty) Ltd over a period of 60 months, commencing on 01 January 2016 ending 31 December 2021. The escalation on rental is 6,9%. There is no option to purchase.

The Municipality leases land to Mobile Telephone Networks (Pty) Ltd over a period of 119 months, comencing on 01 May 2011 ending 31 March 2021. The escalation on rental is 8%. There is no option to purchase.

8. Defined benefit obligation

Defined benefit plan

The defined benefit liability as disclosed below is represented by two different post-employment benefits. The benefits as set out below are externally funded.

Post-employment medical aid plan

Continuation members, active members, spouses and dependents receive a fixed subsidy of 70% subject to the maximum (CAP) amount of R3,871.00 (2015 - R3,763.30) per member.

Upon a members death-in-retirement, the surviving dependants will continue to receive the same 70% subsidy.

Long service award

Long service awards are payable to qualifying in-service employees. The leave benefits are in accordance with paragraph 11 of the South African Local Government Barganing Council (SALGBC) collective agreement on Conditions of Service for the Northern Cape Division of SALGBC. The agreement is effective 1 July 2010.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(13 527 000)	(12 217 000)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	12 368 000	12 217 000
Benefits paid	-	(1 926 579)
Net expense recognised in the statement of financial performance	-	2 077 579
	12 368 000	**12 368 000**

Net expense recognised in the statement of financial performance

Current service cost	-	1 096 000
Interest cost	-	640 000
Actuarial (gains) losses	-	341 579
	-	**2 077 579**

8. Defined benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Actual return on plan assets	Yield curve
Discount rates used	CPI +1%
Expected rate of return on assets	Yield curve based
Expected rate of return on reimbursement rights	SA 85-90
Actual return on reimbursement rights	65
Medical cost trend rates	63
Expected increase in salaries	Difference between nominal and real yield curve

Other assumptions:

Discount rate
GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

The nominal and real zero curves as at 30 June 2016 as supplied by the JSE, was used to determine the discounted rates and CPI assumptions at each relevant time period. This methodology has cahnged from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal salary inflation rate
The underlying future rate of consumer price index inflation (CPI inflation) was derived from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. The assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6%

Average retirement age
The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age
The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality rates
Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

9. Inventories

Consumable stores	439 511	447 048
RDP Inventory	16 412 714	16 412 714
Water in pipes and reservoirs	92 382	88 769
	16 852 225	16 859 762
	16 944 607	**16 948 531**

Inventory pledged as security

No inventory was pledged as security for any financial liability at year-end.

10. Receivables from non-exchange transactions

NC Department of Health Primary Health Grant	3 310 000	3 310 000
Deposits held	645 350	645 350
	3 955 350	**3 955 350**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end.]

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions although past due are not considered to be impaired as it is the municipality's policy not to impair government receivables. At 30 June 2017, R3,310,000 (2016: R3,310 000) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	3 310 000	3 310 000

11. Consumer receivables from non-exchange transactions

Sale of erven	17 118 814	17 118 814
Prepaid sales receivable	-	226 391
Undeposited receipts	-	261 832
	17 118 814	**17 607 037**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from exchange transaction past due but not impaired

Receivables which are more than 3 months past due are considered for impairment as per the municipality's impairment policy. At 30 June 2017, R 17 118 814 (2016: R 17 118 814) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	17 118 814	17 118 814

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

12. Receivables from non-exchange transactions

Property Rates	4 470 597	4 519 797

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer receivables from non-exchange transactions pledged as security

Non of the consumer receivables from non exchange transactions were pledged as security for any financial liability at year end.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(33 121 663)	(23 269 795)
Provision for impairment	-	(10 277 199)
Amounts written off as uncollectible	-	425 331
	(33 121 663)	**(33 121 663)**

13. VAT receivable

VAT	10 383 891	10 012 954

14. Consumer receivables from exchange transactions

Gross balances		
Electricity	8 273 505	12 709 859
Miscallaneous	66 300 836	59 225 036
Miscallaneous no vat	52 611 791	41 587 722
Refuse	30 640 644	24 637 281
Other (specify)	3 082 211	2 281 476
	160 908 987	**140 441 374**
Less: Allowance for impairment		
Electricity	(4 259 200)	(6 543 388)
Miscallaneous	(60 539 294)	(54 081 272)
Miscallaneous	(47 708 372)	(37 713 592)
Refuse	(27 392 737)	(22 025 140)
Other sundry	(2 437 009)	(2 437 009)
	(142 336 612)	**(122 800 401)**
Net balance		
Electricity	4 014 305	6 166 471
Miscellanous No Vat	5 761 542	5 143 764
Miscellanous Vat	4 903 419	3 874 130
Refuse	3 247 907	2 612 141
Other sundry	645 202	(155 533)
	18 572 375	**17 640 973**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Consumer receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	2 400 125	2 792 637
31 - 60 days	1 235 894	1 941 936
61 - 90 days	378 286	1 431 898
	4 014 305	**6 166 471**
Water		
Current (0 -30 days)	2 251 252	2 138 235
31 - 60 days	1 521 432	1 405 190
61 - 90 days	1 531 587	1 400 357
> 90 days	457 271	199 982
	5 761 542	**5 143 764**
Waste water		
Current (0 -30 days)	1 925 247	1 715 540
31 - 60 days	1 499 550	1 385 847
61 - 90 days	1 478 622	772 743
	4 903 419	**3 874 130**
Refuse		
Current (0 -30 days)	100 569	814 316
31 - 60 days	1 231 256	905 926
61 - 90 days	960 150	868 104
91 - 120 days	955 932	23 795
	3 247 907	**2 612 141**
Other (specify)		
Current (0 -30 days)	645 202	(155 533)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(122 800 401)	(98 193 009)
Contributions to allowance	(19 536 211)	(29 542 929)
Debt impairment written off against allowance	-	4 935 537
	(142 336 612)	**(122 800 401)**

Consumer receivables from exchange transactions pledged as security

No consumer receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of consumer receivables from exchange transactions

The credit quality of consumer receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

Consumer receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R - (2016: R 10 036 406) were past due but not impaired.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

15. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	27 487 092	27 789 592
Less: Allowance for impairment		
Consumer debtors - Rates	(23 016 495)	(23 269 795)
Net balance		
Consumer debtors - Rates	4 470 597	4 519 797
Rates		
Current (0 -30 days)	1 987 510	2 001 175
31 - 60 days	587 521	676 141
61 - 90 days	450 032	479 979
91 - 120 days	521 310	487 922
> 120 days	924 224	874 580
	4 470 597	**4 519 797**

16. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 000	52 750
Bank balances	464 364	808 586
Short term investments	8 746 652	10 328 816
	9 213 016	**11 190 152**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for [specify the liability]	8 173 064	8 173 064

The capital invested on a ABSA Fixed Deposit account has been ceded to Eskom as a guarantee on electricity accounts.

17. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

Management has taken a decision to dispose of a significant asset /or a group of assets and liabilities /or a component of the entity.

18. Accumulated surplus

Accumulated surplus (deficit)	613 659 353	677 621 718

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Finance lease obligation

Minimum lease payments due		
- within one year	3 589 795	3 589 795
- in second to fifth year inclusive	2 424 141	2 424 141
	6 013 936	6 013 936
less: future finance charges	(471 316)	(471 316)
Present value of minimum lease payments	**5 542 620**	**5 542 620**

Present value of minimum lease payments due		
- within one year	3 209 093	3 209 093
- in second to fifth year inclusive	2 333 527	2 333 527
	5 542 620	**5 542 620**

It is municipality policy to lease certain motor vehicles and office equipment under finance leases.

The average lease term was 3 - 5 years and the average effective borrowing rate was -% (2016: 1%).

Interest rates are linked to prime at the contract date. All leases escalate at 8% p.a and no arrangements have been entered into for contingent rent.

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Expanded Public Works Programme	90	-
Library Grant	10 708	10 708
Lotto Grant	-	1 906
Sishen Iron Ore Financial Support Grant	875 025	1 675 334
	885 823	**1 687 948**

See note 28 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

21. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Total
Environmental rehabilitation	10 235 219	10 235 219

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabiliation	6 487 263	7 414 189	(4 309 553)	643 320	10 235 219

Rehabilitation Landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002). The provision was determined by an independent expert for the rehabilitation cost in 2016 and then approximated the expected future cash flows using reasonable estimation techniques. The discount rate used for all the landfill sites is based on a CPA rate that matures as close as possible to the future date of the rehabilitation, the rate is 9.92% for the circumstances of the municipality.

Rehabilitation quarry site

The provision for rehabilitation of quarry sites relates to the legal obligation to rehabilitate quarry sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002). The provision was determined by an independent expert for the rehabilitation cost in 2016 and then approximated the expected future cash flows using reasonable estimation techniques. The discount rate used for all the quarry sites is based on a CPA rate that matures as close as possible to the future date of the rehabilitation, the rate is 9.92% for the circumstances of the entity.

22. Other financial liability

The Municipality acquired one loan from Development Bank of South Africa. The loan is repayable quarterly at the rate of 5%. The loan is redeemable on the 30 June 2017. The loan is unsecured. Futher details of the loan are included in Appendix A to the annual financial statements.

The municipality did not difault on any of the borrowings, whether it be on the capital or interest portions, and non ot the terms attached to the borrowings were re-negotiated.

23. Payables from exchange transactions

	2017	2016
Debtors with credit balances	2 791 932	2 791 932
Bonus Accrual	1 453 271	1 453 271
Deffered revenue	100 510	100 510
Retentions	1 074 854	1 074 854
Leave accrual	7 240 743	4 440 077
Sundry creditors	308 066	-
Trade payables	95 425 079	72 655 737
Salary Control	1 282 614	1 084 947
Un-allocated Deposits	15 102 010	26 150 918
	124 779 080	**109 752 246**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Consumer deposits

Water and Electricity	2 002 562	1 983 976
Comunity halls and other	39 619	35 040
	2 042 181	**2 019 016**

25. Revenue

Donations received	-	84 000
Fees earned	421 180	821 755
Fines, Penalties and Forfeits	334 350	196 835
Government grants & subsidies	64 076 485	51 933 672
Insurance claims received	29 745	113 581
Interest received - investment	707 679	5 192 773
Licences and permits	1 801 015	1 783 933
Property rates	31 665 464	26 227 219
Rental income	415 745	379 413
Service charges	89 812 523	79 505 625
	189 264 186	**166 238 806**

The amount included in revenue arising from exchanges of goods or services are as follows:

Donations received	-	84 000
Fees earned	421 180	821 755
Insurance claims received	29 745	113 581
Interest received - investment	707 679	5 192 773
Licences and permits	1 801 015	1 783 933
Rental income	415 745	379 413
Service charges	89 812 523	79 505 625
	93 187 887	**87 881 080**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	31 665 464	26 227 219
Transfer revenue		
Fines, Penalties and Forfeits	334 350	196 835
Government grants & subsidies	64 076 485	51 933 672
	96 076 299	**78 357 726**

26. Property rates

Property rates levied

Property rates	31 665 464	26 227 219

27. Service charges

Refuse removal	11 222 072	10 641 385
Sale of electricity	34 736 812	34 364 371
Sale of water	17 205 231	18 625 176
Sewerage and sanitation charges	26 648 408	15 874 693
	89 812 523	**79 505 625**

Figures in Rand	2017	2016

28. Government grants and subsidies

Operating grants		
Expanded Puplic Works Programme Grant	1 000 000	1 000 000
Equitable share	30 015 000	28 192 000
Financial Management Grant	2 010 000	1 886 936
Library Grant	2 063 000	1 700 000
Municipal Systems Improvements Grant	-	930 000
Sishen Iron Ore Financial Support Grant	1 970 270	1 947 231
Capital grants		
Corporative Governance, Human Settlements and Traditional Affiars Grant	-	119 237
Kumba Grant	-	999 268
Municipal Infranstructural Grant	27 018 215	15 159 000
	64 076 485	**51 933 672**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	30 028 215	50 445 884
Unconditional grants received	30 015 000	28 192 000
	60 043 215	**78 637 884**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructural Grant

Current-year receipts	27 018 215	15 159 000
Conditions met - transferred to revenue	(27 018 215)	(15 159 000)
	-	-

Conditions still to be met - remain liabilities (see note 20).

Municipal Systems Improvement Grant

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	-

Conditions still to be met - remain liabilities (see note 20).

Financial Management Grant

Current-year receipts	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	-	-

Conditions still to be met - remain liabilities (see note 20).

SISHEN IRON ORE FINANCIAL SUPPORT GRANT

Balance unspent at beginning of year	1 675 334	3 622 565
Conditions met - transferred to revenue	(800 309)	(1 947 231)

Figures in Rand	2017	2016

28. Government grants and subsidies (continued)

	875 025	**1 675 334**

Conditions still to be met - remain liabilities (see note 20).

TSASAMBA/KUMBA

Balance unspent at beginning of year	-	999 268
Conditions met - transferred to revenue	-	(999 268)
	-	**-**

Conditions still to be met - remain liabilities (see note 20).

LIBRARY GRANT

Balance unspent at beginning of year	10 708	10 708
Current-year receipts	-	1 700 000
Conditions met - transferred to revenue	-	(1 700 000)
	10 708	**10 708**

Conditions still to be met - remain liabilities (see note 20).

Expanded Public Works Programme

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(999 910)	(1 000 000)
	90	**-**

Conditions still to be met - remain liabilities (see note 20).

LOTTO PROJECT GRANT

Balance unspent at beginning of year	1 906	1 906
Conditions met - transferred to revenue	(1 906)	-
	-	**1 906**

Conditions still to be met - remain liabilities (see note 20).

29. Other revenue

Donations	-	84 000
Fees earned	421 180	821 755
Insurance Claim Refund	29 745	113 581
Rental income - third party	415 745	379 413
	866 670	**1 398 749**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

30. General expenses

Advertising	1 942 885	186 562
Auditors remuneration	3 191 307	3 376 139
Bank charges	318 122	581 574
Chemicals	322 879	246 806
Cleaning	57 325	49 242
Conferences and seminars	20 000	-
Consulting and professional fees	3 737 225	4 354 484
Debt collection	5 349 189	192 436
Delivery expense	-	2 093
Entertainment	61 180	89 413
Fines and penalties	417 775	-
Grants and subsidies paid (indigents)	6 768 149	4 334 817
Insurance	377 788	346 717
Motor vehicle expenses	2 723 870	2 236 164
Other expenses	105 997	826 249
Postage and courier	247 839	208 191
Printing and stationery	440 133	429 797
Protective clothing	28 071	429 679
Royalties and license fees	869 271	1 000 547
Subscriptions and membership fees	1 080 663	393 656
Telephone and fax	856 262	902 371
Training	181 738	21 398
Travel - local	2 904 764	2 361 423
	32 002 432	**22 569 758**

31. Employee related costs

Annual bonus	2 653 427	2 647 934
Basic salary	38 346 666	36 981 978
Housing benefits and allowances	2 664 426	1 713 047
Leave provision expense	2 934 857	696 887
Long-service awards	297 000	288 000
Medical aid - company contributions	924 001	2 337 850
Other payroll levies	199 266	21 570
Overtime payments	7 788 823	6 333 430
Pension fund contribution	5 503 345	5 101 041
Provident fund contribution	111 400	113 600
Skills Development Levy	564 558	488 578
Standby Allowance	768 412	658 356
Travel, motor car, accommodation, subsistence and other allowances	4 831 881	4 633 647
Unemployment Insurance Fund	402 964	364 429
Worksmen Compensation	6 288	6 190
	67 997 314	**62 386 537**

32. Remuneration of councillors

Councillors	4 440 467	3 172 277

33. Debt impairment

Debt impairment	19 282 911	39 820 129

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

34. Investment revenue

Interest revenue		
Bank	707 679	883 219
Landfill	-	4 309 554
	707 679	**5 192 773**

35. Fair value adjustments

Investment property (Fair value model)	-	5 435 035

36. Depreciation and amortisation

Property, plant and equipment	5 784 925	23 543 789
Intangible assets	-	85 962
	5 784 925	**23 629 751**

37. Finance costs

Actuarial Interest	-	1 096 000
Current borrowings	(55 517)	33 673
Finance leases	-	1 287 467
Trade and other payables	4 555 409	4 699 038
	4 499 892	**7 116 178**

38. Auditors' remuneration

Audit fees	3 191 307	3 376 139

39. Bulk purchases

Electricity	22 055 245	34 266 307
Water	14 515 744	16 400 106
	36 570 989	**50 666 413**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

40. Capital commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	32 697 337
Total capital commitments		
Already contracted for but not provided for	-	32 697 337

This committed expenditure relates to property and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	-	68 826
- in second to fifth year inclusive	-	287 345
	-	**356 171**

For More details rever to note 7.

41. Contingencies

Contingent liabilities

2017

The Municipality is being sued for the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.

AXSYS vs Tsantsabane Local Municipality, relating to service agreement termination and non payment by the municipality R4000 000.

36 Employee vs Tsantsabane Local Municipality, relating to labour disputes. The litigation value is uknown

The municipality is operating an unlicenced landfill site, therefore a posibble litigation might arise where by the department will impose a fine for contravention of the National Environmental Management: Waste Act No 59 of 2008. The munucipality is exposed to a maximum penalty that might be imposed to it of R10 000 000.

2016

The municipality is involved in legal battle relating to a transfer of property by a company. The financial impact of matters is unknown

The municipality is plaintiff in a case relating to a project for construction of paving and another case with a different contractor relating to payments of a construction project. The financial impact of both matters is unknown.

An individual is demanding an amount of R 8,000,000 from the municipality in relation to repairs made at a municipal property while the municipality wishes to take back the said property.

The municipality is operating an unlicenced landfill site, therefore a posibble litigation might arise where by the department will impose a fine for contravention of the National Environmental Management: Waste Act No 59 of 2008. The munucipality is exposed to a maximum penalty that might be imposed to it of R10 000 000.

42. Going concern

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Notes to the Annual Financial Statements

Figures in Rand

42. Going concern (continued)

Management has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality has implemented a system to enhance the revenue collection and cash flow by improving on the debt recoverability processes.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

43. Events after the reporting date

Council is not aware of any material matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosures in the annual financial statements.

44. Unauthorised expenditure

Unauthorised expenditure - opening balance	371 936 778	345 938 279
Current year additions	-	25 998 499
Under investigation by council	**371 936 778**	**371 936 778**

45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	24 680 329	21 224 305
current year additions	-	4 699 037
Condoned by council	-	(1 243 013)
Under investigation by council	**24 680 329**	**24 680 329**

46. Irregular expenditure

Opening balance	-	61 975 508
Add: Irregular Expenditure - current year	-	4 535 270
Less: Amounts condoned	-	(4 535 270)
Less: Amounts recoverable (not condoned)	-	(61 975 508)
Under investigation by council	**-**	**-**

47. In-kind donations and assistance

Donor		
National Treasury	-	1 646 637

The national treasury is directly funding the service provided by TGIS, for asset verification and the preparation of GRAP compliant asset register. The cost of this services is R - (2016: R 1 637 453)

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	-	617 460

Notes to the Annual Financial Statements

Figures in Rand

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses

Electricity distribution losses

Electricity distribution losses		
	-	36 474 768
	-	(24 094 263)
kWh Losses	**-**	**12 380 505**
		33,94%
		0,92
	-	11 410 628
Water distribution losses (Kilo litres)		
	-	2 292 682
	-	(1 212 998)
	-	(12 567)
Kilo litre losses	**-**	**1 067 117**
Heading		
		47,09%
		7,06
	-	7 537 192

Audit fees

Opening balance	-	7 604 217
Current year subscription / fee	-	3 376 139
Amount paid - previous years	-	(10 980 356)
	-	**-**

PAYE, SDL and UIF

Opening balance	-	93 267
Current year subscription / fee	-	1 238 356
Amount paid - current year	-	(1 331 623)
	-	**-**

Pension and Medical Aid Contributions

Opening balance	-	1 286 888
Current year subscription / fee	-	10 779 056
Amount paid - current year	-	(11 540 036)
	-	**525 908**

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	10 383 891	10 012 954

All VAT returns have been submitted by the due date throughout the year.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Figures in Rand	2017	2016
Deviations		
Emergency	-	2 140 402
Sole Provider	-	1 046 367
Strip & Quote	-	20 817
Other	-	1 327 682
	-	**4 535 268**

50. Inter-departmental consumption

The inter-departmental consumption is based on units consumed as per the meter records.

51. Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

Non-compliance with Municipal Systems Act sec 86 H(2)(1)

A municipality may pass a by-law establishing a service utility which provides for the appointment of the Councillors to manage the service utility. The municipality did not fully comply with the provisions of the Municipal Systems Act as the term of the Councillors ended April 2016. Thus for the two months of May 2016 and June 2016 the municipality did not have a Councillorss. However a new Councillors was appointed with effect from 1 July 2016.

Non-compliance with MFMA sec 65(2)(e)

Money owing by the municipality to the value R 84 733 403 was not paid within 30 days of receiving the relevant invoice or statement mainly due to the lack of proper supporting documents and late submission of invoices by the supplier.

Non-compliance with the Companies Act

In terms of section 9 of the Companies Act 71 of 2008 the municipality must comply with all relevant provisions of the Act except where the municipality has obtained exemptions. This was not complied with in the following aspects:

- The municipality did not have the whistle-blowing mechanism during the period under review as required by Section 159 of the Act.

Notes to the Annual Financial Statements

. Non-compliance with Municipal Finance Management Act and other Legislation (continued)

- The municipality did not finalise the code of conduct of ethics for the Board of Directors that meets the provisions of Section 214 of the Act.

Non-compliance with King III Code of Governance for South Africa, 2009

The King III Report on Corporate Governance (2009) provides governance principles and best implementation practice guides. The municipality did not fully comply with the provisions of the code in the following aspects:

- The municipality did not develop an Environmental Impact Assessment Plan and did not perform any environmental impact assessments.

The Employment Equity Act no. 55 of 1998 Section 3(2) and 20(1)

The municipality did not finalise the development and approval of the employment equity plan during the financial year.